



**ANNEX 2**

of the Commission Implementing Decision on the ENI East Regional Action Programme 2019 Part 3 (including one action on budget 2019 & 2020), to be financed from the general budget of the European Union

**Action Document for Structural Reform Facility (2) – ENI East**

**ANNUAL**

This document constitutes the annual work programme in the sense of Article 110(2) of the Financial Regulation and action programme/measure in the sense of Articles 2 and 3 of Regulation N° 236/2014.

<b>1. Title/basic act/ CRIS number</b>	Structural Reform Facility (2) - ENI East CRIS number: ENI/2019/041-973 financed under the European Neighbourhood Instrument	
<b>2. Zone benefiting from the action/location</b>	Six Eastern Partnership countries (EaP countries): Armenia, Azerbaijan, Belarus, Georgia, Republic of Moldova, Ukraine The action shall be carried out at the following location: EaP countries	
<b>3. Programming document</b>	Regional East Strategy Paper (2014-2020) and Multiannual Indicative Programme (2017-2020)	
<b>4. Sustainable Development Goals (SDGs)</b>	Goal 1: No poverty, Goal 8: Decent Work and Economic Growth, Goal 10: Reduced inequalities	
<b>5. Sector of intervention/ thematic area</b>	Structural reforms, economic development, good governance	DEV. Assistance: YES
<b>6. Amounts concerned</b>	Total estimated cost: EUR 7 000 000 Total amount of European Union (EU) contribution EUR 7 000 000	
<b>7. Aid modality(ies) and implementation modality(ies)</b>	Project Modality: Indirect management with entrusted entities to be selected in accordance with the criteria set out in section 5.3.1	
<b>8 a) DAC code(s)</b>	15110 Public sector policy and administrative management	

	16010 Social/ welfare services 16020 Employment policy and administrative management 24010 Financial policy and administrative management 25010 Business support services and Institutions 25020 Privatisation			
<b>b) Main Delivery Channel</b>	Multilateral organisation – 40000			
<b>9. Markers (from CRIS DAC form)<sup>1</sup></b>	<b>General policy objective</b>	<b>Not targeted</b>	<b>Significant objective</b>	<b>Principal objective</b>
	Participation development/good governance	<input type="checkbox"/>	X	<input type="checkbox"/>
	Aid to environment	X	<input type="checkbox"/>	<input type="checkbox"/>
	Gender equality and Women's and Girl's Empowerment <sup>2</sup>	<input type="checkbox"/>	X	<input type="checkbox"/>
	Trade Development	<input type="checkbox"/>	X	<input type="checkbox"/>
	Reproductive, Maternal, New born and child health	X	<input type="checkbox"/>	<input type="checkbox"/>
	<b>RIO Convention markers</b>	<b>Not targeted</b>	<b>Significant objective</b>	<b>Principal objective</b>
	Biological diversity	X	<input type="checkbox"/>	<input type="checkbox"/>
	Combat desertification	X	<input type="checkbox"/>	<input type="checkbox"/>
	Climate change mitigation	X	<input type="checkbox"/>	<input type="checkbox"/>
	Climate change adaptation	X	<input type="checkbox"/>	<input type="checkbox"/>
<b>10. Global Public Goods and Challenges (GPGC) thematic flagships</b>	N/A.			

## SUMMARY

Building on the result of the Structural Reform Facility (1), the objective of the Structural Reform Facility (2) (the Facility) is to contribute towards the development of sustainable and equitable economic growth models in the Eastern Partnership (EaP) countries, which can generate more investments and improve socio-economic conditions and employment opportunities for citizens. To this end, the Facility will support the design and implementation of structural reforms in the following areas:

- Business and investment climate and financial infrastructure;
- Human capital, including labour market and social protection;
- Economic governance and sustainability of public finances;

<sup>1</sup> When a marker is flagged as significant/principal objective, the action description should reflect an explicit intent to address the particular theme in the definition of objectives, results, activities and/or indicators (or of the performance / disbursement criteria, in the case of budget support).

<sup>2</sup> Please check the Minimum Recommended Criteria for the Gender Marker and the Handbook on the OECD-DAC Gender Equality Policy Marker. If gender equality is not targeted, please provide explanation in section 4.5.Mainstreaming.

- Reinforcing the rule of law and good governance.

It will do so by leveraging the unique technical expertise of International Financial Institutions and international organisations, which will also allow achieving a stronger alignment of policy messages towards beneficiaries, to engage in a coherent and coordinated policy dialogue in view of supporting the implementation of structural reforms in the region.

The Facility will also seek to contribute to Pillar 3 of the External Investment Plan (EIP) in order to support the improvement of economic policy as well as business and institutional environment in EaP countries, which are critical factors to ensure that investment under the EIP can materialise.

In particular, the Structural Reform Facility (2) will build on the preliminary results of the Structural Reform Facility (1) that stress the needs to support the development of capital markets, non-banking sectors, fiscal governance, gender economic development policies, and improve state-owned enterprises corporate governance, while supporting the development of the Public Private Partnerships. In addition, the Structural Reform Facility (2) will also focus on the structural reforms needed to improve social services and education.

## **1. CONTEXT ANALYSIS**

### **1.1 Context Description**

Structural reforms refer to changes in the broad fabric of the economy, including the function of government. They are meant to address longer-term aspects in the structure of a country's economic framework and tackle obstacles to the fundamental drivers of growth by liberalising labour, product and service markets, thereby encouraging job creation and investment as well as improving productivity. They are designed to boost an economy's competitiveness, growth potential and adjustment capacity. The type of structural reforms can be wide-ranging, spanning from liberalisation of labour market laws, business regulations, implementation of social safety nets to modernisation of judicial sectors. These reforms have been a central element of the policy response to the 2008 economic and financial crisis, together with fiscal and monetary policies for the EU in particular, as well as for G20 countries, which have collectively made several structural policy commitments in their national growth strategies.

According to the April 2019 Regional Economic Outlook report from the International Monetary Fund (IMF)<sup>3</sup>, economic growth in the region stabilized after recovering from large external shocks during 2014–16, benefiting from efforts to strengthen macroeconomic policy frameworks.. Following a series of crises in recent years, countries of the region seem now to be on a path towards recovery, even if facing a slight moderation of economic growth in 2019 due to the worsening external environment. The recovery path is also helped by continued supportive domestic macroeconomic policies in most countries.

However, the IMF highlights that the main medium-term policy challenge remains boosting potential growth and income convergence with structural reforms. Gains from past reforms are largely exhausted and speeding up convergence is now more challenging. This would require strengthening institutions by improving public sector efficiency, including through restructuring state-owned enterprises and enhancing public sector investment management

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<sup>3</sup> <https://www.imf.org/en/Publications/REO/MECA/Issues/2019/04/17/reo-menap-cca-0419>.

frameworks; and improving labour supply by raising participation rates and reducing structural unemployment. As economic risks remain tilted to the downside, the importance of consolidating the foundations for sustainable and equitable economic growth should therefore be the priority.

In addition, the latest edition of European Bank for Reconstruction and Development (EBRD) transition report<sup>4</sup> puts the spotlight on inequality and inclusion, explaining how a failure to deliver a fair distribution of the fruits of progress may lead to setbacks in political and economic development. It also explores the causes of inequality of opportunity and looks at how to strengthen financial inclusion.

Accompanying the EU Eastern Partners in implementing structural reforms that will lead to reducing inequalities, bringing equal opportunities to all and building more inclusive society will be key, not the least to ensure that the EU Neighbourhood policy bring tangible results to the people of the EU partner countries.

The prioritisation of structural reforms will depend on a number of factors affecting each country differently, including macroeconomic conditions, the interplay between demand and supply policies, the pay-offs between different types of reforms, the resource space to finance them, the social buy-in for difficult reforms, and the country's position in the economic cycle, among others. Typically, for transition economies, the largest productivity pay-offs are associated with reforms that improve market functioning (addressing in particular infrastructure, labour market and business regulation reforms, as well as development of capital markets). These economies, which are normally faced with limited policy space and output below potential, may prioritise the need for reforms that yield long-term pay-offs with those that have shorter-term benefits or can be implemented in a budget neutral fashion.

## 1.2 Policy Framework (Global, EU)

A sound regulatory and institutional environment is essential for improving competitiveness, encouraging investment, fostering employment creation, raising living standards and producing sustainable growth. Against this background, the European Union has identified the implementation of structural reforms as a priority to set economic recovery on a sustainable path, unlock growth potential, raise living standards and support the process of convergence in the EU. To help EU Member States effectively design and implement such reforms, the Commission set up the Structural Reform Support Service (SRSS) in July 2015<sup>5</sup>.

The overall framework of the EU cooperation with the EaP countries is provided by the **European Neighbourhood Policy** (ENP)<sup>6</sup>. The ENP, launched in 2004 and reviewed in 2015, aims to achieve the closest possible political association and the greatest possible degree of economic integration with the EU of its Southern and Eastern neighbour countries. Its focus is to foster stability, security and prosperity in the countries closest to its borders. The European Neighbourhood Instrument (ENI)<sup>7</sup>, established in 2014, is the key EU financial instrument dedicated to the neighbourhood countries for the period 2014-2020. The objective

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<sup>4</sup> <http://www.ebrd.com/documents/oce/transition-report-201819-work-in-transition.pdf>

<sup>5</sup> [https://ec.europa.eu/info/departments/structural-reform-support-service\\_en](https://ec.europa.eu/info/departments/structural-reform-support-service_en).

<sup>6</sup> [https://eeas.europa.eu/topics/european-neighbourhood-policy-enp\\_en](https://eeas.europa.eu/topics/european-neighbourhood-policy-enp_en).

<sup>7</sup> <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2014:077:0027:0043:EN:PDF>.

of the ENI is to achieve progress towards ‘an area of shared prosperity and good neighbourliness’ between EU member states and their Eastern neighbours.

The ENP was further developed through the **EaP**<sup>8</sup>, which is a joint initiative of the EU and Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine. It was launched in 2009 and forms a specific dimension of the ENP. The EaP aims to create the conditions for accelerated political association, deeper economic integration between the EU and its partners and closer business-to-business and people-to-people contacts. A 2015 review of the ENP and the Riga Summit (May 2015) discussions confirmed the need for a more tailored and differentiated approach to the Eastern partners. Therefore, on the EaP bilateral level, the EU is committed to establishing strong and mutually beneficial cooperation with all six partners. The scope and depth of cooperation are determined by the ambitions and needs of the EU and the partners, as well as by the pace of reforms in the EaP countries.

The **bilateral relations** of the EU and Georgia, Moldova and Ukraine are based on the Association Agreements/Deep and Comprehensive Free Trade Areas (AA/DCFTAs) concluded in 2014. These agreements aim at strengthening the political association and economic integration. They constitute a plan of reforms that will bring the partner countries closer to the EU by aligning their legislation and standards with those of the EU, and improve peoples’ lives in a tangible way. A tailored approach was applied to the relations with Armenia, Azerbaijan and Belarus, thereby reflecting their aspirations.

The relations with Armenia are regulated by the new Comprehensive and Enhanced Partnership Agreement (CEPA) between Armenia and the EU provisionally entered into force in June 2018. The CEPA was signed on November 24, 2017 and ratified by the National Assembly of Armenia with a unanimous vote on April 11, 2018. The bilateral relations with Azerbaijan are set out in a specific PCA (1999). Azerbaijan is committed to enhance political cooperation and progressive but selective economic integration with the EU. The EU is negotiating with Azerbaijan a new bilateral agreement which would better reflect the EU’s and Azerbaijan’s respective interests and values. The strategic objectives of the EU and Armenia and Azerbaijan cooperation are set in the ENP Action Plans.

In this context, the EU and its partners confirmed at the Eastern Partnership Summit, which took place in November 2017 in Brussels, the areas of market opportunities and economic development, as well as strengthening institutions and good governance, as key priorities for future cooperation. These objectives were further developed into the Staff Working Document "20 deliverables for 2020"<sup>9</sup>, which includes clear reform objectives in these areas.

In addition, in the context of the implementation of the External Investment Plan (EIP)<sup>10</sup>, there is a need to intensify support for the improvement of the economic policy, business and institutional environment which is a critical factor to ensure that investment financed under the EIP can materialise.

### **1.3 Public Policy Analysis of the partner country/region**

#### **I. Improving the business and investment climate and infrastructure:**

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<sup>8</sup> [https://ec.europa.eu/neighbourhood-enlargement/neighbourhood/eastern-partnership\\_en](https://ec.europa.eu/neighbourhood-enlargement/neighbourhood/eastern-partnership_en).

<sup>9</sup> Joint Staff Working Document "Eastern Partnership - Focusing on key priorities and deliverables": [https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/near-eeas\\_joint\\_swd\\_2016467\\_0.pdf](https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/near-eeas_joint_swd_2016467_0.pdf).

<sup>10</sup> [https://ec.europa.eu/europeaid/eu-external-investment-plan-factsheet\\_en](https://ec.europa.eu/europeaid/eu-external-investment-plan-factsheet_en).

The EaP countries have, for the most part, engaged in a serious effort towards structural reforms to improve the business climate. Georgia is among the top 10 in the world for ease of doing business in 2018 according to the World Bank's Doing Business Report<sup>11</sup>. As a group, they have shown a steady increase relative to their own benchmarks as well as to other countries, and have steadily increased their positions in the global ranking (Georgia: 6, Belarus: 37, Armenia: 41, Moldova: 47, Azerbaijan: 25, and Ukraine: 71) out of 190 countries.

However, they still face challenges which prevent firms from realising their full potential, and in particular SMEs, which represent, on average, 95% of the firms in EaP countries, as in the EU. SMEs in the EaP have the potential to make a significant contribution to job creation and to drive economic growth. Typical challenges are: limited access to finance, constraints in accessing new markets, constant changes in new, inconsistent and burdensome legislation, lack of relevant skills to grow their businesses and a difficult operational environment encompassing high tax rates, corruption, bureaucracy and political instability.

By supporting a comprehensive diagnostic of the short-falls and potential reforms in the investment climate, the action will allow EaP countries to identify short and long term reforms that can ultimately yield high economic and social pay-offs through increased foreign and domestic investment, a more dynamic productive sector, additional export potential, a balanced and sustainable economic growth model, and ultimately more job opportunities for its citizens.

## II. Bridging the skills gap, investing in human capital and social protection:

Investing in human capital by addressing the mismatch between demand (labour market) and supply (primary, secondary, university and technical and vocational education and training - TVET educations) factors, should contribute to increase potential employment opportunities for youth, and to help firms find the type of skills they need to compete in a more open and digitalised international economy. For education and employment opportunities to be equitable, well targeted social safety nets need to be in place to accompany job-seekers with unemployment protection and re-training opportunities, among other active labour market policies. In addition, supporting shared and balanced growth, in particular ensuring the full participation of regions in the development of countries, and all the segment of the population (age, geography, sex, religion, disabilities...) are key to respond to the expectation of citizens.

## III. Strengthening economic governance and public finance sustainability:

A stable and credible macro-economic framework is fundamental for a sustainable economic development model to prosper. Strong and independent regulators and institutions, including those focused on consumer protection and social representation, are key to the development of the private sector. In addition, prudent and transparent fiscal and monetary policies are key to anchor investors' expectations and increase investment opportunities.

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<sup>11</sup> [http://www.doingbusiness.org/content/dam/doingBusiness/media/Annual-Reports/English/DB2019-report\\_web-version.pdf](http://www.doingbusiness.org/content/dam/doingBusiness/media/Annual-Reports/English/DB2019-report_web-version.pdf).

#### IV. Reinforcing the rule of law and good governance:

Respect for fundamental rights, legal certainty and confidence in a legal system is crucial for individuals and businesses alike. The rule of law and good governance create the stable and predictable environment which allows businesses to plan and prosper and which attracts investments.

##### **1.4 Stakeholder analysis**

A comprehensive, centralised and coordinated approach to the design and implementation of structural reforms would have the added advantage of further leveraging EU funds to achieve results in key policy areas where the stronger technical expertise may lie with partner IFIs and international organisations. By tapping into this expertise, we could achieve a stronger alignment of policy messages between institutions and towards beneficiaries.

The following core stakeholders will be involved in programme activities and become the main partners in implementation of the action:

- International Finance Institutions and International Organisations as providers of policy advice and technical assistance to partner governments, including through macro-economic policy conditionality.
- Competent authorities within national governments in charge of coordinating horizontal policy priorities and implementing sectorial ministries.
- Other stakeholders such as regional and local governments, civil society organisations (e.g. NGOs, academia, professional associations, etc.) could be involved in and potentially benefit from certain specific activities.
- Member States, as possible providers of technical and policy advice through twinning programmes or bilateral initiatives.

##### **1.5 Problem analysis/priority areas for support**

The action addresses the following four priority areas:

###### I. Improving the business and investment climate and infrastructure:

**Possible areas of structural reform addressing the business climate and infrastructure could include**, but not be limited to:

- regulatory obstacles and institutional framework for economic activities;
- trade and trade related policies (including non-tariff issues such as sanitary and phytosanitary measures and technical barriers to trade, public procurement rules, etc.);
- investment policy, (minority) investor protection and property rights (including intellectual property)
- market surveillance / quality infrastructure (inspection, standards, etc.)
- competition and anti-monopoly policies
- SME policies;
- financial markets, including: access to finance/access to market; financial services, financial infrastructure and financial inclusion; insurance sector.
- central banking, financial and macro-prudential supervision.

II. Bridging the skills gap, investing in human capital and social protection:

**Possible areas of structural reform of the skills gap and human capital could include, but not be limited to:**

- education and labour market reforms;
- reform of social protection systems (including pension systems);
- reform of public health system (including health related pricing and reimbursement policies, and regulation of healthcare operators).

III. Strengthening economic governance and public finance sustainability:

**Possible areas of structural reform addressing economic governance could include, but not be limited to:**

- prioritisation, preparation and implementation of public investments;
- reform of the governance of state-owned enterprises (SOEs);
- Tax and fiscal policies (fight against tax evasion, tax efficiency, addressing both redistribution and “pre-distribution” aspects);
- land property and registration, energy and transport reforms;
- Public finance management (including public expenditure and financial accountability).

IV. Reinforcing the rule of law and good governance:

**Possible areas of structural reform addressing the rule of law and good governance could include, but not be limited to:**

- Commercial justice;
- Anti-corruption;
- Enforcement of the rule of law

The priority areas are not exclusive to specific grants under the action, and several of the areas can be targeted by one single contract.

2. **RISKS AND ASSUMPTIONS**

<b>Risks</b>	<b>Risk level (H/M/L)</b>	<b>Mitigating measures</b>
Lack of broad based social buy-in for identified structural reforms.	H	The financed actions will have specific outreach activities with key civil society representatives and other public and private relevant stakeholders.
Political instability or short-term focus derails long-term reforms efforts.	H	Structural reforms should be realistically sequenced, costed, and promoted to obtain sufficiently large political buy-in for their implementation.

EU visibility and policy dialogue is diluted in favour of implementing partners.	M	A steering committee for each component will be created to ensure a regular and coherent implementation of the relevant reforms throughout the region and in particular of the policy dialogue linked to the action.
<b>Assumptions</b>		
<p>Governments' resolve to carry out the recommended reforms, and efficient cooperation between stakeholders.</p> <p>Political and economic stability.</p> <p>Continued interest and commitment from implementing partners of the action.</p>		

### 3. LESSONS LEARNT AND COMPLEMENTARITY

#### 3.1 Lessons learnt

The approach towards the implementation of complex structural reforms in many EaP countries has been in general piecemeal. Numerous reforms in different areas have been started, but not always with an appropriate prioritisation and/or sequencing of the steps needed to ensure their adequate implementation. Some reforms were subject to the shifts in the political environment and not sufficiently supported by a broad base of stakeholders, hampering their implementation. In addition, different international institutions and/or development partners are involved in the design and/or implementation of these reforms, while not always fully coordinated amongst each other.

Therefore, the EU foresees the necessity to ensure a more enhanced cooperation with the international organisations, including the IMF and the World Bank, on the design and implementation of structural reforms and ensure a more coordinated policy dialogue with the beneficiaries. Through a centralised structural reform facility in support of these reforms, the EU aims to progress towards this more coordinated approach.

As most structural reforms supported by the EU in the EaP countries have been channelled through the bilateral cooperation envelopes, at a regional level there has been a lack of a coherent approach to similar reforms. Through the Facility, both delegations and implementing partners, and beneficiaries, can benefit from the aggregated knowledge to prepare their own bilateral interventions while ensuring an overall coherence with similar initiatives.

The action also draws on lessons learned from the SIGMA programme, which has been under implementation for over 20 years in both the IPA and ENI contexts. In particular, the governance structure of the action and implementation arrangements are partly based on those of SIGMA. The EU delegations of ENI East have also been consulted in the preparation of the Structural Reform Facility.

The action also draws on lessons learned from the identification stage of the first phase of the Structural Reform Facility (1) created in 2017. In 2018, following the adoption of the decision, the following three contracts were signed with the World Bank, the International Monetary Fund and the European Bank for Reconstruction and Development:

- World Bank [1.5 MEUR - Signed in September 2018]

The WB supports the Eastern Partnership countries to carry out a stocktaking exercise on measures and reforms carried out in the financial sector. WB, together with the EU and the Partner countries, will develop Action Plans identifying key reforms and will assist the authorities in their implementation. WB will focus on reforms aiming at improving stability and diversification of the financial sector through the development of non-bank financial institutions and capital markets.

- EBRD [2 MEUR - Signed in August 2018]

The EBRD has undertaken an initial mapping to identify key constraints and priority reform areas in order to improve the business environment and investment climate and identify existing donor-supported technical assistance activities in these areas to avoid future duplication of efforts. EBRD developed country-specific Investment Climate Action Plans and will assist the authorities in their implementation.

- IMF [1.5 MEUR - Signed in December 2018]

The IMF is assisting the authorities in the implementation of pre-identified reforms related to public finance management, including public expenditure and financial accountability.

### **3.2 Complementarity, synergy and donor co-ordination**

Numerous bilateral programmes, both from EU and IFIs, are currently ongoing in the EaP addressing structural reforms in the areas covered under this action (e.g: including SIGMA and SOCIEUX)<sup>12</sup>. These can be policy-based interventions, such as budget support or development policy loans, in which disbursements are linked to policy reform in certain areas, or through direct technical assistance for the implementation of reforms, or financing studies, action plans, and/or reviews. Capacity building projects are also in place in most countries to support the administration in increasing their information-gathering and policy design.

Therefore, a strong emphasis will be put to ensure complementarity between regional and bilateral programmes.

For each of the components detailed in section 4.1, and corresponding to the priority areas identified in section 1.1.3, implementers will first map out what actions are taking place and closely liaise with ongoing interventions to maximise potential synergies, and will take stock of past interventions and lessons learned. In order to avoid any overlapping, implementing partners will also seek agreement from the EUD and inform EUD on the implementation of the action plan. EU Delegations will be consulted at every step of the action, which include the contracting of each component. IFIs will have to consult with EUD delegations for the analysis and the implementation phases. In addition, workshops and seminars under the components will be organised with the relevant stakeholders in each of the countries to ensure information exchange and knowledge build-up of best practices.

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<sup>12</sup> [https://ec.europa.eu/europeaid/social-protection-eu-expertise-development-cooperation-socieux\\_en](https://ec.europa.eu/europeaid/social-protection-eu-expertise-development-cooperation-socieux_en)  
<http://www.sigmaweb.org/about/>.

## **4. DESCRIPTION OF THE ACTION**

### **4.1 Overall objective, specific objective(s), expected outputs and indicative activities**

The overall objective of this action is to contribute towards the development of sustainable and equitable economic growth models in the EaP countries, which can generate more investments and improve socio-economic conditions and employment opportunities for citizens.

The specific objectives are to:

- SO1: Improved macro-economic framework and better definition of public policies
- SO2: Improved governmental design and implementation of structural reforms

To realize these specific objectives, the action will be structured along the following intervention areas:

- Component 1: Business and investment climate and infrastructure
- Component 2: Human capital, including labour market and social protection
- Component 3: Economic governance and sustainability of public finances
- Component 4: Rule of law and good governance

The following outputs can be envisaged under the action, applicable to all components:

- Output 1: Improved policy evidence for governments to prioritise and design structural reforms
- Output 2: Strengthened capacities of partner governments, and the EU, to design and implement structural reforms.

### **4.2 Intervention Logic**

The proposed intervention logic is based on the development of a wide Structural Reform Facility which will serve as a notional umbrella facility in order to, among other things, ensure coherence in the approach to structural reforms in a given sector throughout the region. The Facility would help partner governments and also EU Delegations identify, design and implement structural reforms in identified sectors and through selected partners, which would also allow for a more structured policy dialogue and planning process. The Structural Reform Facility operates through a two phases approach. The interventions under the facility start with a diagnosis/analysis of the situation to allow a prioritisation of actions. The Facility will be implemented through a series of assignments with IFIs and international organisations which will design the actions to be implemented in a flexible and demand-driven approach, in order to properly respond to the needs of the beneficiaries. Drawing in part from the SIGMA model, the implementing partners would work on the basis of periodic action plans prepared through consultations with the partner governments (including through the EaP platform and panels architecture), EU Delegations, geographic HQ services and relevant line DGs.

The Structural Reform Facility (2) will build on the preliminary results of the Structural Reform Facility (1) in particular regarding the needs of technical assistance to support business climate, to develop capital markets, and to enhance fiscal governance. In particular, the first existing components of the Facility notably stress the needs to expand non-banking

sectors, improve state-owned enterprises corporate governance while supporting the development of Public Private Partnerships. The Structural Reform Facility (2) will develop its actions to support these reforms.

A goal of the Structural Reform Facility since its creation is to bridge the skills gap, invest in human capital by addressing the mismatch between demand and supply while developing social safety nets. Therefore, the Structural Reform Facility (2) will also focus on the structural reforms needed to improve social services and education.

### **4.3 Mainstreaming**

To achieve its results, the action could carry out, inter alia, the following main activities:

- Mapping of the state of play of the relevant structural reforms in the EaP countries
- Preparation of in-depth country-specific policy reviews and sectoral/thematic studies
- Support to elaboration of reform Action Plans addressing structural policy gaps
- Support, also to the EU delegations, in the identification, formulation and implementation of selected structural reforms
- Training, knowledge creation and information and experience exchange across the region
- Promotion, outreach and engagement with relevant stakeholders to understand the rationale and impact of reforms
- Assisting the EU during the monitoring and policy dialogue linked to selected sector budget operations focusing on structural reforms
- Consultations with civil society (including social partners) and citizens
- Communication to the wider audience/ citizens on the intent, pace and effects of support

### **4.4 Contribution to SDGs**

This intervention is relevant for the 2030 Agenda. It contributes primarily to the progressive achievement of SDG(s) #1, #8, while also contributing to #10.

## **5. IMPLEMENTATION**

### **5.1 Financing agreement**

In order to implement this action, it is not foreseen to conclude a financing agreement.

### **5.2 Indicative implementation period**

The indicative operational implementation period of this action, during which the activities described in section 4 will be carried out and the corresponding contracts and agreements implemented, is 72 months from the date of adoption by the Commission of this Action Document.

Extensions of the implementation period may be agreed by the Commission's responsible authorising officer by amending this Decision and the relevant contracts and agreements.

### 5.3 Implementation modalities

The Commission will ensure that the EU appropriate rules and procedures for providing financing to third parties are respected, including review procedures, where appropriate, and compliance of the action with EU restrictive measures<sup>13</sup>.

#### 5.3.1 Indirect management with entrusted entities

This action may be implemented in indirect management with several entities which will be selected by the Commission's services using the following criteria: adequate expertise, capacities and long and varied experience in the Eastern Partnership countries and in the domain to be covered. In addition, the entities should have specific expertise in the respective policy domain.

The implementation by these entities entails activities and reaching results as listed under the expected results related to Specific output 1 and 2. For this purpose, the entities need to have sufficient Financial and operational capacity to check through the relevance of the proposed actions related to the objectives, design, effectiveness, feasibility, the sustainability and the cost-effectiveness. The entities should be by preference pillar-assed International Organisations or International Financial Institutions.

### 5.4 Scope of geographical eligibility for procurement and grants

The geographical eligibility in terms of place of establishment for participating in procurement and grant award procedures and in terms of origin of supplies purchased as established in the basic act and set out in the relevant contractual documents shall apply

The Commission's authorising officer responsible may extend the geographical eligibility based on urgency or of unavailability of products and services in the markets of the countries concerned, or in other duly substantiated cases where the eligibility rules would make the realisation of this action impossible or exceedingly difficult.

### 5.5 Indicative budget

Action Outputs	EU contribution (amount in EUR)	Indicative third party contribution
<b>Specific output 1 and 2</b>		
Indirect management with entrusted entities cf. section 5.3.1	<b>7 000 000</b>	N.A
<b>Communication and visibility</b> (cf. section 5.11)	included under output 1 and 2	N.A.
<b>Total</b>	<b>7 000 000</b>	0

<sup>13</sup> www.sanctionsmap.eu Please note that the sanctions map is an IT tool for identifying the sanctions regimes. The source of the sanctions stems from legal acts published in the Official Journal (OJ). In case of discrepancy between the published legal acts and the updates on the website it is the OJ version that prevails.

## **5.6 Organisational set-up and responsibilities**

Each grant under the Facility will have its own steering committee to review the operational aspects of the implementation, including the review of the specific action plans.

Under each contract, EU delegations will be consulted on the preparation of the action plans, and will be informed and invited to participate in the different activities implemented by the partners.

## **5.7 Performance and Results monitoring and reporting**

The day-to-day technical and financial monitoring of the implementation of this action will be a continuous process, and part of the implementing partner's responsibilities. To this aim, the implementing partner shall establish a permanent internal, technical and financial monitoring system for the action and elaborate regular progress reports (not less than annual) and final reports. Every report shall provide an accurate account of implementation of the action, difficulties encountered, changes introduced, as well as the degree of achievement of its results (outputs and direct outcomes) as measured by corresponding indicators, using as reference the Logframe matrix (for project modality) or the partner's strategy, policy or reform action plan list (for budget support).

SDGs indicators and, if applicable, any jointly agreed indicators as for instance per Joint Programming document should be taken into account.

The Commission may undertake additional project monitoring visits both through its own staff and through independent consultants recruited directly by the Commission for independent monitoring reviews (or recruited by the responsible agent contracted by the Commission for implementing such reviews).

## **5.8 Evaluation**

Having regard to the importance and nature of the action, a final evaluation will be carried out for this action or its components through a joint mission contracted by the Commission via an implementing partner. It will be carried out for accountability and learning purposes at various levels (including for policy revision), taking into account in particular the fact that is a pilot initiative.

The Commission shall inform the implementing partner at least 2 months in advance of the dates foreseen for the evaluation missions. The implementing partner shall collaborate efficiently and effectively with the evaluation experts, and inter alia provide them with all necessary information and documentation, as well as access to the project premises and activities.

The evaluation reports shall be shared with the partner country and other key stakeholders. The implementing partner and the Commission shall analyse the conclusions and recommendations of the evaluations and, where appropriate, in agreement with the partner country, jointly decide on the follow-up actions to be taken and any adjustments necessary, including, if indicated, the reorientation of the project.

The financing of the evaluation shall be covered by another measure constituting a financing decision.

Where relevant and where appropriate the provisions included in the framework agreement(s) signed with the contracted entity(ies) will apply

## **5.9 Audit**

Without prejudice to the obligations applicable to contracts concluded for the implementation of this action, the Commission may, on the basis of a risk assessment, contract independent audits or expenditure verification assignments for one or several contracts or agreements.

Where relevant and where appropriate the provisions included in the framework agreement(s) signed with the contracted entity(ies) will apply.

The financing of the audit shall be covered by another measure constituting a financing decision.

## **5.10 Communication and visibility**

Communication and visibility of the EU is a legal obligation for all external actions funded by the EU.

This action shall contain communication and visibility measures which shall be based on a specific Communication and Visibility Plan of the Action, to be elaborated at the start of implementation.

In terms of legal obligations on communication and visibility, the measures shall be implemented by the Commission, the partner country (for instance, concerning the reforms supported through budget support), contractors, grant beneficiaries and/or entrusted entities. Appropriate contractual obligations shall be included in, respectively, the financing agreement, procurement and grant contracts, and delegation agreements.

The Communication and Visibility Requirements for European Union External Action (or any succeeding document) shall be used to establish the Communication and Visibility Plan of the Action and the appropriate contractual obligations.

With regards to the Neighbourhood East, all EU-supported actions shall be aimed at increasing the awareness level of the target audiences on the connections, the outcome, and the final practical benefits for citizens of EU assistance provided in the framework of this action. Visibility actions should also promote transparency and accountability on the use of funds.

Outreaching/awareness raising activities will play a crucial part in the implementation of the action, in the case of budget support the national government shall ensure that the visibility of the EU contribution is given appropriate media coverage. The implementation of the communication activities shall be the responsibility of the implementing organisations, and shall be funded from the amounts allocated to the action.

All necessary measures will be taken to publicise the fact that the action has received funding from the EU in line with the Communication and Visibility Manual for EU External Actions. Additional Visibility Guidelines developed by the Commission (European Neighbourhood Policy and Enlargement Negotiations) will be strictly adhered to.

Where relevant, the provisions of the Financial and Administrative Framework Agreement concluded between the European Union and the selected international organisations shall apply.

It is the responsibility of the implementing organisation to keep the EU Delegations and, where relevant, DG NEAR, fully informed of the planning and implementation of the appropriate milestones specific visibility and communication activities.

The implementing organisation shall report on its visibility and communication actions, as well as the results of the overall action to the relevant monitoring committees.

This action will be communicated externally as part of a wider context of EU support to the country, and where relevant to the Eastern Partnership region in order to enhance the effectiveness of communication activities and to reduce fragmentation in the area of EU communication.

The implementing organisation shall coordinate all communication activities with EU Delegations as well as regional communication initiatives funded by the European Commission to the extent possible. All communication strategies developed as part of this action shall ensure they are in line with the priorities and objectives of regional communication initiatives supported by the European Commission and in line with the relevant EU Delegation's communication strategy under the "EU4Country" umbrella initiative.

## APPENDIX – INTERVENTION LOGIC

	Results chain	Indicators	Baselines	Targets by the end of the budget support contract	Sources of data
<b>Expected impact of the policy (Overall objective)</b>	a) Contribute towards the development of sustainable and equitable economic growth models in the EaP countries, which can generate more investments and improve socio-economic conditions and employment opportunities for citizens.	Annual growth rate of real GDP per capita  Gini index  (Female/male) employment rate dynamics Data on investments	Data for 2019 as defined in the IMF and WB databases as well as in databases of national authorities.	Positive trend by 2022.	IMF database World Bank database National authorities
<b>Expected outcomes of the policy (Specific objective(s))</b>	SO1) Improved macro-economic framework and better definition of public policies.  SO2) Improved governmental design and implementation of structural reforms.	1a) Deficits as % of GDP 1b) Indicators used by the Debt Sustainability Analysis in IMF Article IV consultations 1c) WB Doing Business Indicators 1d) Global competitiveness index  2) Extent to which the implementation of structural reforms supported by the EU under this action are on track	Data for 2019 as defined in the IMF database (1a and 1b), WB database (1c) and WEF database (1d).  2) No reforms under this action are in place in 2019.	1a) Positive trend (2022) 1b) Gradual improvement of DSA (2020) 1c) and 1d) Gradual increase in relative position in ranking (2022)  2) Increased number of structural reforms supported and in implementation	1a and 1b) IMF Article IV + programme reports; If Article IV reports are not available on a timely basis national sources could be used (statistical office; central bank, ministry of finance) for the macroeconomic data.  1c) WB Doing Business annual report  2) Structural Reform Facility reports, National texts, statistics, systems (to be further detailed during implementation)
<b>Induced outputs</b>	Improved policy evidence for governments to prioritise and design structural reforms.	Number of structural policy gaps identified.	To be defined after the Steering Committee of the Structural Reform Facility (1) in September 2019	Targets will be defined during implementation phase.	Structural Reform Facility reports and concrete deliverables.
<b>Direct outputs</b>	Strengthened capacities of partner governments, and the EU, to design and implement structural reforms.	Number of structural demands identified for support.			

